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STATE PASS USTR FOR NED SAUMS
COMMERCE FOR 4520/ITA/MAC/ONE/P.THANOS
ROME FOR CUSTOMS ATTACHE

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SUBJECT: QIZ UPDATE - IRAQ WORRIES, TRANSSHIPMENT RUMORS,
BUT POSITIVE NUMBERS CONTINUE

Classified By: Ambassador Edward W. Gnehm, reasons 1.5 (b,d)

Summary

11. (sbu) Despite continuing political uncertainty in the region, QIZ exporters in Jordan continue to report solid production and growth. Most exporters are booked through the winter, some new investor interest is evident, and many current investors are expanding production. Many QIZ exporters continue to voice the same business concerns that have become a staple of the QIZ story - problems with Israeli inputs, procedural delays, and labor cost gripes. Adding to this "background noise," though, is a slowly growing level of discomfort over the political situations facing Jordan's neighbors. While increased political instability is unlikely to derail QIZ production, West Bank violence or war with Iraq will undoubtedly dampen new investor interest and potentially increase QIZ production costs in the short term. End summary.

First, The Good News

12. (u) QIZ output numbers continue to show strong growth. Exports from the Al Hassan QIZ in Irbid totaled over \$229 million through October 2002, a 47% increase over the same period last year. Similarly, QIZ exports from Al Dulayl QIZ near Zarga totaled over \$49 million for the first 9 months of 2002, compared to \$21.5 million for CY 2001. Dulayl's exports this year represent over 31% of total exports from the Zarga Governorate. Based on these figures, and assuming Tajammouat's numbers track in similar fashion (there are no separate export figures for Tajammouat), the QIZ's should meet our earlier estimate of \$400 million in exports for 2002.

13. (sbu) Anecdotal evidence supports these aggregate numbers nicely. The dozen or so QIZ exporters we have spoken with over the past month have been upbeat about current and planned production. Most exporters are booked through March 2003 (bookings for April and beyond typically start around November/December). Indeed, a small number of exporters claim to be booked beyond their current capacity and are looking for local subcontractors. A number of current investors are buying new building space to expand long-term production, and there has been a smattering of new investments in the past three months. One exporter in Kerak noted that he was "upgrading" his production from generic lines to labels, including Ralph Lauren and Jockey. He also said he had been contacted by Jones New York about setting up a washing, embroidery, and silkscreen facility in Jordan. Another exporter said he was talking to a potential partner about establishing a weaving mill and attached bedsheet manufacturing facility in the QIZ's.

14. (sbu) On the labor front, expat worker percentages appear to be roughly stable at around one-third of total workers. There is a great deal of variance in reports from the government and the private sector, though, with estimates of expat QIZ workers ranging from 25% to 40%. Of particular note on the labor/social front, the management team at Tajammouat recently inaugurated a program to boost Jordanian employment by recruiting girls from the town of Tafileh in southern Jordan and hosting them dormitory-style at the park. The program has been well received in both the QIZ and, we are told, by the Tafileh girls. As a result, management in Dulayl is putting together a similar program to bring in girls from the Baqaa refugee camp to work in the QIZ's.

Business Complaints

15. (u) Business complaints from QIZ exporters remain largely the same - requests to reduce Israeli inputs below 8%, requests to improve QPR approval times on the Israeli side, and complaints about product quality of Israeli inputs. In addition to these usual gripes, new specific concerns have been raised. First, some exporters have noted that some U.S. freight forwarders and even some customs officials are unfamiliar with documentary requirements for imports of QIZ goods. Exporters say this lack of familiarity can delay importation of QIZ goods, which can be expensive with time-sensitive garment imports. We have promised to raise this issue with Customs.

16. (u) Second, a number of exporters are frustrated by contractual obligations imposed by U.S. garment retailers. Many retailers require exporters to work with, e.g., a particular trim manufacturer or a particular hanger maker. This ties the hands of exporters, who cannot source these items out of Israel and so meet their 8% requirements. Compounding the problem, they say Israeli trim makers etc. have not made an effort to become "approved" suppliers for many larger retailers for these goods.

17. (u) Finally, we are hearing increasing rumors of transshipment of third-country garments through Jordan. In particular, we have heard reports of (mostly Chinese) garments being shipped in to Aqaba, re-labeled in the QIZ, and exported as QIZ goods to the U.S. These rumors are short on specifics, making it difficult to track them. Jordanian customs has confirmed that there have been isolated incidents of attempted transshipment. We have also heard counter-rumors that customs officials have refused entry to trans-shipments and have begun to closely scrutinize QIZ exporters with chequered pasts. Jordanian customs has thus far been unable to confirm those rumors.

Uneasiness Over Political Developments

18. (c) In addition to the usual "background noise" of complaints over Israeli inputs, some exporters and park managers have expressed a low, but growing, sense of disquiet over continued political uncertainty in the neighborhood. Some of this unease is simply generalized anxiety over the smorgasbord of problems in the region, from possible war with Iraq to ongoing violence in the West Bank and Israel to increased incidents of violence against Americans in the region. Some exporters have cited cancellation of orders tied to this generalized uncertainty, while others note that new orders are coming in more slowly than usual - due in part to a slow U.S. economy, partly to the first quarter being a traditionally slow time, and partly to political uncertainty. Similarly, the investment promotion officer for Tajammouat noted that, during a recent trip to China, previously scheduled meetings with prospective investors were canceled at the last minute because they were no longer interested in investing in a "war zone."

19. (c) This generalized anxiety has been compounded by growing concern over the impact of war with Iraq on the QIZ's. Specifically, exporters note that, in the previous war with Iraq, sea and air ports in Israel and Jordan were closed for a time and war risk insurance premiums kept boats out of Aqaba. Should history repeat, some exporters fear increased production costs from raised insurance premiums, problems importing inputs from Israel or East Asia, and problems exporting finished goods. They note that similar concerns arise from the possibility of a sharp increase in violence in the West Bank causing closure of border crossings and hence, access to Israeli inputs. We have continued to reiterate both the USG's and the Israeli government's support for the QIZ's, noting that the northern crossing has closed for security reasons for only a handful of days in the last two years, including closure after the September 11 terror attacks in the U.S. Exporters nevertheless continue to seek assurances that we have contingency plans in place to support continued QIZ operations in the event that access to Israeli inputs is curtailed for an extended period of time.

Comment

110. (sbu) Overall, news from the QIZ's remains positive. Park managers and key investors are particularly excited about the proposed QIZ event to be held December 13 on the margins of the FTA Joint Commission meeting in Washington, which they feel will go a long way toward relieving retailer concerns over political instability, and will ultimately lead to increased sourcing and new investment for Jordan. Most of the complaints we continue to hear are normal complaints from businessmen trying to optimize profit and efficiency. The Israeli and Jordanian governments are currently talking about restructuring Israeli input requirements, and the result of those talks should have a net positive impact on current investors. The fact that the complaints over the 8% continue and that U.S. retailers are looking for contract suppliers of inputs indicates that, once tariff relief under the FTA approximates relief under the QIZ's, many current exporters will export under the FTA, reducing costs and increasing quality by moving away from Israeli suppliers. On the political side, it will be useful to have a mechanism in place in the future to address the possibility of loss of access to Israeli inputs for QIZ production.

GNEHM